

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY LONDON PRIORITY

INFO AMEMBASSY CARACAS

C O N F I D E N T I A L STATE 243027

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: PETROLEUM ROYALTY HOLDERS

REFERENCE: STATE 241105

1. AS AMEMBASSY AWARE, THE VENEZUELAN GOVERNMENT HAS PASSED A LAW WHICH PROVIDES FOR NATIONALIZATION OF THE OIL INDUSTRY BY NEXT JANUARY 1. UNDER THE LAW, THE GOVERNMENT IS TO MAKE COMPENSATION OFFERS TO THE COMPANIES BY OCTOBER 13. THE COMPANIES IN TURN HAVE UNTIL OCTOBER 28 TO AGREE TO ACCEPT THESE COMPENSATION OFFERS OR TO OPT FOR A COURT EXPROPRIATION PROCEDURE WHICH IS TO BE COMPLETED BY JANUARY 1. THE LAW STATES THAT COMPENSATION CANNOT BE HIGHER THAN THE NET BOOK VALUE OF PROPERTIES, PLANTS AND EQUIPMENT, MINUS A SPECIFIED LIST OF DEDUCTIONS. COMPENSATION FOR CONCESSION RIGHTS ARE THEREFORE
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NOT REPEAT NOT CONTEMPLATED UNDER THE LAW.

2. THERE APPARENTLY ARE A NUMBER OF U.K. NATIONALS AS WELL AS U.S. NATIONALS (AND VENEZUELAN NATIONALS) WHO IN THE 1930'S OBTAINED OIL CONCESSIONS IN VENEZUELA. WHEN THESE PERSONS SOLD OUT THEIR CONCESSIONS TO THE LARGE OIL COMPANIES, THEY RETAINED OVERRIDING ROYALTY RIGHTS ENTITLING THEM THROUGHOUT THE LIFE OF THE CONCESSION TO A STIPULATED ANNUAL QUANTITY OF OIL OR THE CASH VALUE THEREOF.

3. WE WOULD BE INCLINED TO RAISE WITH THE GOV THE QUESTION OF COMPENSATION FOR U.S. HOLDERS OF THESE ROYALTIES IF THE HMG IS DISPOSED TO MAKE AN APPROACH ON BEHALF OF BRITISH NATIONALS WHO ARE ROYALTY HOLDERS. WE WOULD APPRECIATE YOUR EXPLORING WITH HMG WHETHER IT IS CONSIDERING A DEMARCHEOR IF NOT WHAT ACTION IT IS PREPARING TO TAKE ON THIS QUESTION.

4. WE CONSIDER THESE ROYALTY RIGHTS VALID AND MERITING COMPENSATION, IN VIEW OF THE FACT THAT ROYALTY PAYMENTS HAVE BEEN MADE CONTINUOUSLY BY THE CONCESSIONAIRES AND THE PAYMENTS HAVE BEEN TAXED BY THE GOV. SINCE THE CURRENT NATIONALIZATION LAW APPARENTLY DOES NOT ADMIT COMPENSATION FOR ROYALTY HOLDINGS, WE MIGHT PERHAPS TOGETHER WITH HMG, WISH TO EXPLORE WITH THE GOV SPECIAL LEGISLATION OR OTHER APPROPRIATE PROVISION FOR SUCH COMPENSATION.

5. APPRECIATE EMBASSY AND HMG VIEWS. FYI DEPUTY LEGAL ADVISER SCHWEBEL AND VENEZUELAN COUNTRY DIRECTOR DEVINE WILL BE IN PARIS OCT. 13-16 FOR PREPCON II. OPPORTUNITY MAY ARISE FOR THEM TO EXPLORE FOREGOING WITH HMG OPPOSITE NUMBERS THERE. REPEAT ANY REPLY TO EMBASSY PARIS FOR SCHWEBEL AND DEVINE . END FYI. KISSINGER

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